

# Healthcare Construction and Current Capital Management Trends

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## Abstract

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Healthcare construction continues to rise in spite of the economic meltdown – largely in part due to the aging baby boomer population requiring medical care. But there are several other factors that this paper will briefly examine.

The current economic climate has created plenty of challenges in acquiring financing for healthcare construction. Despite these hurdles, healthcare companies have managed to find alternate solutions to finance their construction projects, which continue to grow, albeit at a much slower pace than was expected before the slump.

Finding ways to increase efficiencies and reduce overhead costs with proper management of construction projects can amount to substantial savings for any healthcare facility.

This paper briefly examines the current trends in the healthcare construction industry and the impact of the economic slowdown as well the capital implications. It also explores the efficiencies that can be acquired with the use of the right project management tools to oversee

healthcare construction projects.

## The Healthcare Industry and Construction Trends

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### “A Perfect Storm”

Healthcare in the recent past has seen a lot of changes – A troubled economy, unemployment issues, shortage of nurses, and debates over healthcare reforms. All this has impacted healthcare construction in a big way, leading to cancelled or postponed projects or worse – projects that have reached an impasse. Yet, despite all the foreboding numbers and figures, overall construction pace in the healthcare industry is still going strong and fast.

According to a report in The Healthcare Financial Management Association (HFMA), healthcare construction projects doubled to 15 percent between 2004 to 2006, increased to 16 percent in 2007, and then decreased by 2 percent in 2008. According to Reed Construction Data, this downward trend will continue through 2010. But regardless, construction in the healthcare sector will remain historically high, especially when

compared to residential and commercial construction; and will continue to grow at a rapid rate with experts predicting the cost to exceed \$60 billion a year by 2010. Primary care (hospital) construction will help maintain these numbers while special care construction will help drive future growth.

Healthcare facilities will undergo tremendous renovations to accommodate installations of newer technologies & modern evidence-based designs (EBD), to create energy-efficient spaces and redesign hospital staff areas for optimal use of labor.

The need for special-purpose diagnosis and treatment facilities such as cancer and heart centers, ambulatory clinics, trauma facilities, women's and children's facilities, men's health centers and acute care facilities geared toward the elderly will all boost construction in the coming years. Added to that, an article in Healthcare Design cited that 47 million Americans will find healthcare coverage soon and there will be a huge increase in patient volume as hospitals play catch up to accommodate the growing numbers.

### Driving Forces Impacting Healthcare Construction Expansion

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There are a number of reasons that point to the upward trend in the healthcare construction industry:

**Ageing Population:** Almost all studies and research indicate that this seems to be the single

most important reason impacting the healthcare construction industry. An aging baby boomer population is retiring and moving to the suburban areas in warmer climates; and with life expectancy in the U.S. having increased from 75 to 78 in the last 20 years, this growing population will require more medical services than ever.

**Creating efficient workspaces for nurses and hospital personnel:** Creating efficient workspaces creates better time efficiencies which translate to money savings. A hospital or any healthcare facility spends a great portion of the spending pie on salary and wages. If the nurses' time was used optimally because of a better designed facility, they could do more in less time and with less energy. This leads to a more productive and happier workforce, cutting down on costly turnover.

**New technology & new facility:** With innovative medical advances being made constantly, outdated buildings cannot accommodate newer technology, leading to hospital construction or renovation. Installing new technology would require re-wiring, piping and freeing up vital space to accommodate new diagnostic and treatment equipments. A new updated building is also a great marketing tool when trying to get ahead of the competition such as specialists and physicians that own their own practice.

**Migration & Population:** Migrating populations directly correlate with the growing need for newer hospitals, specialty and diagnostic

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centers. While migratory trends keep changing constantly, the most recent development seems to be migration to the suburbs in the sun-belt region. The healthcare industry needs to follow these population movement patterns in order to be able to serve larger populations in a cost-effective manner.

### **Single and private room requirements:**

Studies indicate better interior design and a warmer ambience can result in faster healing. Hospitals are rapidly moving away from stark, sterile environments to warm, friendly designs and layouts. Private rooms are starting to look increasingly like modern, updated hotel rooms providing many comforts of home. Design improvements have also been proven to improve productivity and reduce turnover among hospital staff.

**Sustainability:** The USGBC awards LEED (Leader of Energy and Environmental Design) points for buildings that are constructed and maintained following certain criteria that support sustainability. Among all types of construction, it makes sense that healthcare facilities take the lead in building green since this type of construction positively impacts the health of the people living or working in the buildings. Green buildings are healthier for patients, physicians, nurses and hospital staff. Although initial costs to build green or renovate an existing structure maybe high in the short run, it can lower utility costs by 20 to 50 percent in the long run, which translates to substantial savings.

### **Challenges**

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A massive expansion of primary care networks and facilities can help meet the needs of the growing volume of in-patients requiring medical care, but this will require funding. And many U.S. hospitals are finding it increasingly difficult to fund their construction projects as a result of the credit crunch and recession. Building a hospital or undertaking any kind of healthcare construction in the current environment is no doubt risky and requires courage and plenty of foresight and planning. Inflation, population, and, lifecycle & operational needs of the future must be accounted for, among other things. But these are uncertainties that healthcare facilities must face, because to sit out the economy is just as dangerous – creaky old healthcare structures, demanding customers, and aggressive competition create a sense of urgency that requires action rather than inaction.

An article from Future Healthcare cited how the volatile bond markets have made it costly to borrow money for healthcare construction. Non-profit hospitals seem to be facing the biggest credit crunch challenges when it comes to getting construction projects financed. Investors often tend to view bonds insured by companies with a lower credit rating as riskier, and hence try to compensate by charging higher interest rates.

In the next 5 – 10 years, rising cost of oil, growing demand for construction material as well as a shortage of labor (depending on the immigration policy) will financially impact the construction

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industry, especially non-profit healthcare where the profit margins are even narrower as compared to other industries.

### Recent shift in paradigm

However, in the recent past, a shift in the economy has contributed to moderate inflation rates and lowered construction costs. These factors are ideal for construction projects and even more so for the healthcare construction industry. Healthcare institutions have a lifespan extending over decades or even a century, so they can override any temporary market fluctuations.

### Capital Management

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HFMA's report "Healthcare Construction Trends and Capital Implications" refers to **five major sources of funding** for healthcare construction:

1. Contributions by Institutional Investors: Investors from financial institutions are a good source of capital for hospitals and medical office buildings, especially as demand for healthcare grows.
2. Hospital-physician partnerships: Partnerships between hospitals and physicians with private practices is another base for construction funds. This not only reduces competition between the two but also helps in sharing revenue as well as costs.
3. Public-private joint ventures: Large private companies related to healthcare (such as pharmaceuticals) are also helping finance

construction in the industry. Combining research and clinical patient care in order to access capital is one motivation for joint ventures between private and public entities.

4. Contributions from third-parties: Hospitals and healthcare institutions are becoming more open to the idea of sharing ownership and management responsibilities with third-parties.

5. Private funds: Healthcare companies often use private capital to fund healthcare construction. While there are no control-sharing issues in this situation, high interest rates are still a concern.

### Integrated Construction Project Management

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With construction projects in healthcare gaining momentum and with limited access to construction capital, there seems to be a need for greater control over budget and improved management of costs, timelines, reporting, documents and processes. Investing in a reliable project management software that is customizable and intuitive, can support a project throughout its entire lifecycle thereby greatly reducing costs related to inefficient use of resources. Proper and lean management of construction costs can result in incredible savings for the owner.

One way to successfully manage projects so these efficiencies can be gained is to pick a good out-of-the-box project management solution with all the functionality and configurability that the project needs. But without the costs that are usually

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associated with such customization.

The key lies in finding a system that is simple to apply, has a user-friendly interface and is easy for team members to adopt. At the same time, the system must have all the capabilities and functionalities to perform complex computations and multifaceted project tasks that will simplify project management for the project manager as well as the team (including third party vendors).

Choosing a great project management tool is perhaps one project element an owner has any control over during uncertain times. Depending on your construction project's needs – whether it is as simple as redesigning the nurses' work station area or building an entire new wing in a hospital, a carefully evaluated project management tool, will help execute the project with the least amount of hassles and errors.

### Creating Accountability and Transparency

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As the number of construction projects increase, capital expenditures will soar and impact an organization's financial statements, creating an even greater need for accountability and transparency. A general mistrust of the way finances have been handled in public institutions has created an environment of suspicion and it is more important now than ever to audit costs and expenses every step of the way. The hassle of documenting and maintaining these numbers has been greatly reduced with project management software, especially one with strong financial and

document management capabilities.

The system must collaborate between several construction parties keeping everyone on the same page and reducing labor hours and costs exponentially. Updating team members and delegating tasks becomes much easier when these activities are online, with role-based access given to different parties in the project. Accountability and transparency ensure that everyone knows their tasks and deadlines, and reminders are automatically sent to keep everyone on track. The solution should be able to track and follow all emails and communications sent through the system, thus keeping an electronic record of all project occurrences.

A versatile project management tool should be able to provide project progress with one click of the mouse. It should give you extensive dashboard reporting and summaries without the user having to spend too much time creating duplicate entries in the system. And most importantly, it should be a central database for all project information and have the ability to store large construction files and A/E/C documents (including BIM diagrams).

Online document management is a perfect example of hard cost savings. The costs associated with producing and distributing hard copies of huge construction documents are substantial. Just the courier cost of shipping heavy documents becomes an obsolete task with easy online document management that allows data to be accessed by authorized parties anytime,

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The solution should have the capacity to manage the entire project lifecycle. For instance, a project manager should have the ability to track a bid from the time it is entered into the system to the time the contractor is paid. Most healthcare organizations worry about audits, especially when they are dealing with large capitals projects, but a good project management system will put a project manager's mind to ease with the knowledge that all relevant information has been stored and is easily accessible even after the project is complete.

Perhaps the most vital differentiating factor between a great project management tool and merely a good one, is the quality of customer service. Customer service and tech support should always be easy to access and a healthy culture of two-way communication between project managers and friendly, knowledgeable support personnel should be made available.

### **Expediting Completion Dates and Reducing Overhead Costs**

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In order to contain escalating construction costs, many healthcare owners are starting to pay out an incentive for an early completion date on their construction projects. Design and construction firms are under tight deadlines to provide faster results and to minimize change orders.

Given the current economic climate, a good integrated and collaborative software solution

should be able to handle the intricacies of such projects, fostering quicker results, more informed decisions, and better coordinated teams. Balancing costs and riding out the rough economy while managing a construction project in the healthcare sector can be overwhelming in these times. But with clear vision, forethought and good project oversight, decision-makers can reap rewards – even in the short-run.

### **About Projectmates**

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Projectmates is a web-based construction management software solution that is geared toward creating collaborative efforts in construction projects. Construction projects in Healthcare, Government, Schools and Retail are among the industries that find this collaboration software extremely easy to work with.

With its successful track record of providing intuitive construction project management solutions to healthcare facilities, Projectmates already has the required expertise and credibility. Projectmates accelerates tasks, decreases time lags between responses, and reduces project cycle time. The construction team's overall effectiveness increases greatly. All these combine to time savings and frees up the time of project teams for more critical project functions. ◀

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